Financial statements of

Niagara Health System

March 31, 2015

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Deloitte LLP
25 Corporate Park Drive
3rd Floor
St Catharines ON L2S 3W2
Canada

Tel: 905-323-6000
Fax: 905-323-6001
www.deloitte.ca

Independent Auditor's Report

To the Board of Directors of
Niagara Health System

We have audited the accompanying financial statements of Niagara Health System, which comprise the statement of financial position as at March 31, 2015, and the statements of operations, changes in net assets, cash flows and remeasurement losses for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Niagara Health System as at March 31, 2015, and the results of its operations, changes in its net assets, its cash flows and its remeasurement losses for the year then ended in accordance with Canadian public sector accounting standards.

Deloitte LLP

Chartered Professional Accountants, Chartered Accountants
Licensed Public Accountants
May 26, 2015

Niagara Health System
Statement of operations
year ended March 31, 2015

	2015	2014
	$	$
Revenue		
Ministry of Health and Long-Term Care		
Base allocation (Note 25)	**369,895,525**	340,706,296
One-time funding, specialized programs	**3,582,865**	5,479,596
Other	**13,336,471**	12,901,021
Cancer Care Ontario	**41,017,180**	35,925,587
	427,832,041	395,012,500
Patient revenue from other payers	**36,151,047**	34,188,230
Differential and co-payments	**4,201,357**	3,781,565
Recoveries and miscellaneous	**13,648,080**	12,281,438
One time donation and grant - minor equipment	**-**	9,035,803
Amortization of grants and donations - equipment	**13,446,149**	12,669,748
	495,278,674	466,969,284
Expenses		
Compensation - salaries and wages	**236,210,490**	218,500,631
Benefit contributions for employees	**65,135,515**	62,513,226
Employee future benefits (Note 12)	**4,680,697**	2,602,123
Medical staff remuneration	**36,442,573**	36,167,415
Supplies and other expenses	**64,993,605**	71,039,238
Medical and surgical supplies	**30,069,422**	30,529,490
Drugs and medical gases	**22,710,509**	22,338,098
Bad debts	**608,974**	589,177
Interest on short-term borrowings	**341,193**	1,330,522
Interest on capital lease obligations	**136,029**	199,369
Amortization of equipment and software licenses	**16,939,061**	15,027,006
Equipment rentals and leases	**2,798,081**	2,608,903
	481,066,149	463,445,198
Surplus from operations before restructuring costs and other votes	**14,212,525**	3,524,086
Restructuring costs	**(2,044,260)**	(792,173)
Surplus from operations before other votes and other funds	**12,168,265**	2,731,913
Deficit from other votes and other funds (Note 18)	**(1,151,540)**	(984,489)
Surplus before net capital expenditures	**11,016,725**	1,747,424
Net capital expenditures - building and land improvements (Note 19)	**(2,482,079)**	(2,217,151)
Surplus (deficit) for the year	**8,534,646**	(469,727)

The accompanying notes to the financial statements are an integral part of this financial statement.

Niagara Health System

Statement of remeasurement losses
year ended March 31, 2015

	2015	2014
	$	$
Accumulated remeasurement losses at beginning of year	**(841,162)**	(36,147)
Unrealized losses attributable to derivatives (Note 10)	**(216,356)**	(804,501)
Unrealized gains (losses) on Endowment and Trust investments	**32,829**	(514)
Accumulated remeasurement losses at end of year	**(1,024,689)**	(841,162)

The accompanying notes to the financial statements are an integral part of this financial statement.

Niagara Health System

Statement of changes in net assets
year ended March 31, 2015

	Investment in land, buildings and equipment (Note 14)	Endowments and trusts (Note 15)	Externally restricted (Note 16)	Internally restricted (Note 17)	Unrestricted	2015
	$	$	$	$	$	$
Balance, beginning of the year	**21,233,242**	**3,728,577**	**72,136**	**81,808**	**(153,463,192)**	**(128,347,429)**
Net surplus (deficit) for the year	**(5,586,541)**	**-**	**-**	**-**	**14,121,187**	**8,534,646**
Reduction in restricted funds	**-**	**(101,378)**	**-**	**-**	**101,378**	**-**
Investment in land, buildings and equipment	**12,251,932**	**-**	**-**	**-**	**(12,251,932)**	**-**
Reallocation of interest earned on restricted funds	**-**	**-**	**165**	**3,748**	**(3,913)**	**-**
Balance, end of year	**27,898,633**	**3,627,199**	**72,301**	**85,556**	**(151,496,472)**	**(119,812,783)**

	Investment in land, buildings and equipment (Note 14)	Endowments and trusts (Note 15)	Externally restricted (Note 16)	Internally restricted (Note 17)	Unrestricted	2014
	$	$	$	$	$	$
Balance, beginning of the year	35,197,233	3,846,271	71,879	78,476	(167,071,561)	(127,877,702)
Net deficit for the year	(4,545,574)	-	-	-	4,075,847	(469,727)
Reduction in restricted funds	-	(117,694)	-	-	117,694	-
Investment in land, buildings and equipment	(9,418,417)	-	-	-	9,418,417	-
Reallocation of interest earned on restricted funds	-	-	257	3,332	(3,589)	-
Balance, end of year	21,233,242	3,728,577	72,136	81,808	(153,463,192)	(128,347,429)

The accompanying notes to the financial statements are an integral part of this financial statement.

Niagara Health System

Statement of financial position
as at March 31, 2015

	2015	2014
	$	$
Assets		
Current assets		
Cash	**46,847**	9,996
Receivables (Note 3)	**14,266,412**	29,029,795
Current portion of contributions receivable (Note 4)	**22,108,436**	17,209,162
Inventories	**4,552,047**	4,678,788
Prepaid expenses and other assets	**4,776,370**	5,085,032
Patient trust funds	**11,547**	10,273
	45,761,659	56,023,046
Land, buildings and equipment (Note 5)	**881,307,893**	900,613,070
Contributions receivable (Note 4)	**166,827,934**	176,697,859
Long-term receivable	**1,250,000**	1,800,000
Cash and investments restricted for capital (Note 6)	**44,268,047**	24,190,720
Endowments and trust funds (Note 7)	**3,627,199**	3,728,577
	1,143,042,732	1,163,053,272
Liabilities		
Current liabilities		
Short-term borrowings (Note 8)	**56,342,756**	98,389,941
Payables and accruals	**71,334,349**	58,495,007
Patient trust accounts	**11,547**	10,273
Unearned revenues	**19,138,930**	11,074,638
Current portion of obligations under capital leases (Note 9)	**515,604**	1,355,885
Current portion of long-term debt (Note 11)	**2,941,292**	3,106,564
Current portion of employee future benefits (Note 12)	**2,073,700**	1,929,700
Current portion of deferred capital contributions (Note 13)	**35,027,785**	32,640,524
	187,385,963	207,002,532
Obligations under capital leases (Note 9)	**2,558,628**	3,078,640
Long-term debt (Note 11)	**215,429,985**	218,017,095
Derivative liability (Note 10)	**1,020,857**	804,501
Employee future benefits (Note 12)	**28,344,938**	25,027,700
Deferred capital contributions (Note 13)	**829,139,833**	838,311,395
	1,263,880,204	1,292,241,863
Commitments and contingencies (Notes 20 and 21)		
Net deficiency	**(119,812,783)**	(128,347,429)
Accumulated remeasurement losses	**(1,024,689)**	(841,162)
	1,143,042,732	1,163,053,272

On behalf of the Board

______________________ Chair of the Board

______________________ Treasurer

The accompanying notes to the financial statements are an integral part of this financial statement.

Niagara Health System

Statement of cash flows
year ended March 31, 2015

	2015	2014
	$	$
Operating activities		
Net surplus (deficit)	**8,534,646**	(469,727)
Items not affecting cash		
Amortization of land improvements, buildings and equipment	**41,281,138**	39,160,506
Amortization of deferred capital contributions (Note 13)	**(35,802,564)**	(35,460,482)
Loss on disposal of land, buildings and equipment (Note 14)	**107,968**	845,550
Change in non-cash activities		
Receivables	**14,763,383**	(11,864,906)
Inventories	**126,741**	1,388,949
Long-term receivable	**550,000**	(1,800,000)
Prepaid expenses and other assets	**308,662**	10,339,394
Payables, accruals and patient trust accounts	**12,839,341**	(17,022,346)
Employee future benefits	**3,461,238**	1,623,500
Unearned revenues	**8,064,296**	8,274,264
	54,234,849	(4,985,298)
Investing activities		
Investments (including endowments and trust funds)	**(19,943,123)**	(1,638,516)
Additions to land, buildings and equipment	**(22,095,595)**	(16,386,682)
Proceeds from sale of land, buildings and equipment	**11,666**	3,148,916
	(42,027,052)	(14,876,282)
Financing activities		
Decrease in contributions receivable	**4,970,651**	(5,846,909)
Decrease in short-term borrowings	**(42,047,185)**	(4,516,554)
(Decrease) increase in obligations under capital lease	**(1,360,293)**	1,931,732
Increase in long term debt	**(2,752,382)**	1,928,626
Deferred capital contributions	**29,018,263**	26,364,685
	(12,170,946)	19,861,580
Net change in cash	**36,851**	-
Cash, beginning of year	**9,996**	9,996
Cash, end of year	**46,847**	9,996
Supplemental cash flow information		
Interest income received	**378,172**	341,795
Interest expense paid - operating	**765,082**	1,787,394
Interest expense paid - capital	**18,202,186**	20,084,416

The accompanying notes to the financial statements are an integral part of this financial statement.

1. Nature of operations

The Niagara Health System (the "Hospital") was created at the direction of the province of Ontario's Health Services Restructuring Commission in March 2000 and is comprised of six sites serving approximately 431,000 residents across the 12 municipalities making up the Regional Municipality of Niagara.

Sites are as follows: Greater Niagara General Site in Niagara Falls, Welland Hospital Site, Douglas Memorial Site in Fort Erie, Niagara-on-the-Lake Site, Port Colborne Site and the newly constructed and opened St. Catharines Site which replaced two sites (the St. Catharines General and Ontario Street sites).

The Hospital operates 720 Acute care, Complex Continuing care, and Mental Health beds as well as 115 Long Term Care beds and 78 Addiction Treatment beds. A wide range of inpatient and outpatient clinics and services are provided at six sites. The Hospital has approximately 4,300 employees, 650 physicians and over 1,200 volunteers.

The Hospital is incorporated under the laws of Ontario as a corporation without share capital and is a registered charity under the Income Tax Act. Continued operations are dependent upon the receipt of funding from the Ministry of Health and Long-Term Care ("MOHLTC") through the Hamilton Niagara Haldimand Brant Local Health Integration Network ("HNHBLHIN").

2. Significant accounting policies

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards for government not-for-profit organization, including the 4200 series of standards, and reflect the following significant accounting policies:

Funding

Under the Health Insurance Act and the regulations thereto, the Hospital is primarily funded by the Province of Ontario in accordance with budget arrangements established by the MOHLTC and HNHBLHIN. These financial statements reflect agreed funding arrangements approved by the HNHBLHIN and MOHLTC with respect to the year ended March 31, 2015.

To the extent which MOHLTC or HNHBLHIN funding has been received with the stipulated requirement that the Hospital provide specific services, the funding is recognized as revenue when the specific services have been performed. In the event that the revenue recognition criteria have not been met, the amounts would be deferred until such time as the services are performed with the monies spent. In the event that the services are not performed in accordance with the funding requirements, the funds received in excess of monies spent could be recovered by the MOHLTC or HNHBLHIN.

Revenue recognition

The financial statements have been prepared using the accrual method of accounting. Under the accrual method of accounting, revenue is recorded when earned and expenses are recorded when incurred.

The Hospital follows the deferral method of accounting for contributions. Restricted contributions are recognized as revenue in the year in which the related expenses are incurred. Unrestricted contributions are recognized as revenue when received or receivable if the amount to be received can be reasonably estimated and collection is reasonably assured. Endowment contributions are recognized as direct increases in net assets.

Provincial equipment and building grants received are deferred and amortized on a straight-line basis at a rate corresponding with the amortization rate for the related equipment or building. Donations received for the purpose of purchasing capital assets are deferred and amortized on a straight-line basis at a rate corresponding with the amortization rate for the related equipment or building purchased.

Restricted investment income is recognized as revenue in the year in which the related expenses are incurred. Unrestricted investment income is recognized as revenue when earned.

Revenue from other services is recognized when services are provided or goods are sold.

2. Significant accounting policies (continued)

Inventories

Inventories consist primarily of hospital supplies held for patient care and are valued at the lower of cost and replacement cost. Cost is determined on a first-in, first-out basis.

Land, buildings and equipment

Land, buildings and equipment are recorded at cost. Amortization is provided on a straight-line basis over the assets estimated useful lives at the rates indicated as follows:

Land improvements	2 - 10%
Buildings	2 - 10%
Building service equipment	3 - 20%
Leasehold improvements	2 - 10%
Equipment	4 - 20%

Construction-in-progress comprises construction, development costs and interest capitalized during the construction period. Upon completion, costs in construction-in-progress are reclassified to the appropriate capital asset account and amortization commences when the asset is operational.

Leased equipment

Equipment taken on lease with terms which transfer substantially all of the benefits and risks of ownership to the Hospital are accounted for as "capital leases", as though an asset has been purchased and a liability incurred. The assets are amortized on a straight line basis at rates ranging from 4% - 20% per annum commencing in the month of purchase. All other items of equipment held on lease are accounted for as operating leases.

Capital lease obligations are recorded at the present value of the minimum lease payments. The discount rate used to determine the present value of the lease payments is the lower of the Hospital's rate of incremental borrowing or the interest rate implicit in the lease. Note 8 provides a schedule of repayments and amount of interest on the leases.

Pension plan

Substantially all of the employees of the Hospital are eligible to be members of the Healthcare of Ontario Pension Plan ("HOOPP") which is a multi-employer final average pay contributory pension plan. For HOOPP, the Hospital uses defined contribution plan accounting as required by Canadian public sector accounting standards. Should there be a contribution deficiency in the plan the Hospital may be required to make additional contributions the cover these deficiencies.

Past service costs arising from a plan amendment are recognized in the period of the plan amendment.

Employee future benefits

The Hospital pays certain benefits of its retired employees including life insurance, health benefits, dental benefits and deluxe travel benefits. The post-retirement costs are recognized in the period in which the employees rendered their services to the Hospital.

The actuarial determination of the accrued benefit obligations were determined using the projected benefit method pro-rated on service.

Experience gains and losses in a year are combined with the unamortized balance of gains or losses from prior years. The Hospital amortizes these accrued benefit obligation into future years' expenses over the average remaining service life to retirement.

Contributed services

The Hospital is dependent on the voluntary services of many individuals. Since these services are not normally purchased by the Hospital and because of the difficulty in estimating their fair market value, these services are not recorded in these financial statements.

2. Significant accounting policies (continued)

Classification of financial instruments

All financial instruments reported on the Statement of Financial Position of the Hospital are measured as follows:

Cash	Amortized cost
Receivables	Amortized cost
Cash and investments restricted for capital	Amortized cost
Endowment and trust funds	Amortized cost
Long-term receivable	Amortized cost
Contributions receivable	Amortized cost
Short-term bank borrowings	Amortized cost
Payables and accruals	Amortized cost
Long-term debt	Amortized cost
Derivative liability	Fair value

Financial instruments measured at amortized cost are initially recognized at fair value, and subsequently carried at amortized cost using the effective interest rate method, less any impairment losses on financial assets. Transaction costs related to financial instruments in the amortized cost category are added to the carrying value of the instrument.

Writedowns on financial assets in the amortized cost category are recognized when the amount of a loss is known with sufficient precision, and there is no realistic prospect or recovery. Financial assets are then written down to net recoverable value with the writedown being recognized in the statement of operations.

Use of estimates

The preparation of these financial statements in accordance with Canadian public sector accounting standards requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates include the determination of useful lives for amortization of capital assets, estimates of accounts receivable collectability and allowance for doubtful accounts, payables and accruals, revenue recognition, unearned revenue and the estimation of future employee benefits. Actual results could differ from management's best estimates as additional information becomes available in the future. These estimates and assumptions are reviewed periodically and as adjustments become necessary they are reported in earnings in the periods in which they are known.

The revenue recognized from the MOHLTC and the HNHBLHIN requires some estimation. The Hospital has entered into accountability agreements that set out the rights and obligations of the parties in respect of funding provided to the Hospital by the MOHLTC and the HNHBLHIN for the year ended March 31, 2015. The accountability agreements set out certain performance standards and obligations that establish acceptable results for the Hospital’s performance in a number of areas.

If the Hospital does not meet its performance standards or obligations, the MOHLTC and the HNHBLHIN have the right to adjust funding received by the Hospital. Neither the MOHLTC nor the HNHBLHIN are required to communicate certain funding adjustments until after submission of year end data. Since this data is not submitted until after the completion of the financial statements, the amount of the MOHLTC/HNHBLHIN funding received during a year may be increased or decreased subsequent to year end. The amount of revenue recognized in these financial statements represents management’s best estimates of amounts that have been earned during the year.

3. Receivables

	2015	2014
	$	$
Ministry of Health and Long-term Care, LHIN, and Cancer Care Ontario	**2,654,917**	18,444,702
Insurers and patients	**6,161,726**	5,881,279
Foundation	**2,560,976**	2,171,443
Other	**3,588,807**	3,094,830
	14,966,426	29,592,254
Allowance for doubtful receivables	**(700,014)**	(562,459)
	14,266,412	29,029,795

4. Contributions receivable

	2015	2014
	$	$
Minsitry of Health and Long-term care	**164,629,172**	166,008,081
Other receivables - new St. Catharines Site	**24,307,198**	27,898,940
	188,936,370	193,907,021
Less: current portion of contributions receivable	**22,108,436**	17,209,162
	166,827,934	176,697,859

On March 27, 2009, the Hospital entered into an agreement to design, build, finance and property manage the new St. Catherine's site. Construction was completed in March 2013.

As part of the Project Funding Agreement, the Ministry has committed to fund a portion of the capital and financing cost of the site. The Hospital has recognized the unpaid MOHLTC funding commitment for the new St. Catharines site construction project as a contribution receivable with a corresponding deferred capital contribution.

The local share of the cost of the building and related finance cost will be funded through a combination of municipal, foundation and other contributions. The Hospital has contractual commitments from various area municipalities for certain amounts to be received over the term of the financing period. These contributions have been set up as receivable with a corresponding deferred contribution.

5. Land, buildings and equipment

			2015	2014
	Cost	Accumulated amortization	Net book value	Net book value
	$	$	$	$
Land	**6,116,530**	**-**	**6,116,530**	6,116,530
Land improvements	**1,334,821**	**823,053**	**511,768**	543,395
Buildings	**142,522,819**	**69,589,393**	**72,933,426**	72,196,834
Leasehold improvements	**3,943,922**	**563,417**	**3,380,505**	3,662,213
Equipment	**185,924,284**	**110,806,285**	**75,117,999**	71,467,915
Building and buildling service equipment new St. Catharines site development	**758,339,615**	**39,013,493**	**719,326,122**	738,656,198
Construction-in-progress	**2,412,940**	**-**	**2,412,940**	5,707,674
	1,100,594,931	**220,795,641**	**879,799,290**	898,350,759
Equipment under capital lease	**19,723,032**	**18,214,429**	**1,508,603**	2,262,311
	1,120,317,963	**239,010,070**	**881,307,893**	900,613,070

6. Cash and investments restricted for capital

Cash and investments restricted for capital are represented by the following:

		2015		2014
	Cost	Market value	Cost	Market value
	$	$	$	$
Government and other Bonds, 1.85% to 2.05%, maturing from June 2016 to Sept 2017	**3,822,461**	**3,876,334**	1,599,640	1,653,513
Money Market Fund	**3,580,795**	**3,580,795**	5,766,381	5,766,381
GICs, 1.00%, maturing Feb 2016	**30,133**	**30,133**	30,133	30,133
Total investment vehicles	**7,433,389**	**7,487,262**	7,396,154	7,450,027
Add: Restricted construction payment treasury account, interest prime less 1.75% (1.25% interest rate)	**31,245,487**	**31,245,487**	14,893,202	14,893,202
Add: Unrealised gain (loss) on investments	**53,873**	**-**	53,873	-
Total investment vehicles for capital purposes	**38,732,749**	**38,732,749**	22,343,229	22,343,229
Other investments Restricted cash	**5,535,298**	**5,535,298**	1,847,491	1,847,491
Total cash and investments restricted for capital	**44,268,047**	**44,268,047**	24,190,720	24,190,720

6. Cash and investments restricted for capital (continued)

Investments are tracked to support restricted funds which have been received by the Hospital in advance of the expenditures required under the terms of each commitment. The Hospital, has borrowed from the internally restricted investments to offset the need for additional bank borrowings to fund current operations. Interest is credited on these funds at a rate similar to the rate that would have been charged by the bank. Borrowings are from restricted funds other those for capital building purposes.

	Balance, beginning of the year	Additions (transfers) during year	Interest	Balance, end of year
	$	$	$	$
Restricted investments				
NHS	**2,849,827**	**(139,439)**	**64,296**	**2,774,684**
MOHLTC Capital and SuperBuild	**21,340,893**	**19,870,301**	**282,169**	**41,493,363**
	24,190,720	**19,730,862**	**346,465**	**44,268,047**

The restricted investments represent contributions received for capital projects and funds internally restricted by the previous Boards of Directors of the founding hospitals for capital projects and equipment specific to the site.

The Hospital received capital grants under the SuperBuild Growth Fund for capital projects directed by the Health Services Restructuring Commission ("HSRC"). In establishing the grant, the MOHLTC focused solely on the new construction component of HSRC directions. Use of the grant is restricted to capital initiatives that are consistent with implementing the functional program which is approved in writing by the Minister of Health and Long-Term Care for addressing HSRC directions under development/discussion and subject to MOHLTC approval in writing for addressing HSRC directions.

Also, the Hospital received capital grants from the MOHLTC to fund their cost-share commitment for approved capital projects. The unspent SuperBuild and MOHLTC capital grants have been invested and the interest income has been added to the original grants.

7. Endowments and trust funds

Endowments and trust funds are represented by the following:

	2015		2014	
	Cost	**Fair market value**	Cost	Fair market value
	$	$	$	$
Mutual funds	**322,295**	**322,295**	314,246	314,246
Cash - treasury accounts	**3,304,904**	**3,304,904**	3,414,331	3,414,331
Total cash and investments for endowments and trusts	**3,627,199**	**3,627,199**	3,728,577	3,728,577

8. Short-term borrowings

As at March 31, 2015, the Hospital has a $30,000,000 (2014 - $30,000,000) unsecured demand operating line of credit. The line of credit bears interest at prime rate plus 1%. As at March 31, 2015 the short term borrowings are $5,222,720 (2014 - $18,167,060) against this facility. Also the hospital has a short-term bridge financing facility of $41,000,000 through Bankers Acceptance Notes for $21,000,000 at 1.26% and $20,000,000 at 1.19% (2014 - Bankers Acceptance Notes for $75,000,0000 at 1.6%) . On April 15, 2015 the Hospital was advanced $61,000,000 toward its 2015/16 funding by the HNHBLHIN and subsequently all bridge financing was repaid.

The Hospital also has a $1,800,000 unsecured demand loan for capital equipment. As at March 31, 2015, an amount of $396,388 (2014 - $1,078,344) was drawn against this facility through Bankers Acceptance Notes at 1.65%.

9. Obligations under capital leases

Future minimum payments under capital leases, by year end in aggregate, consist of the following at March 31, 2015:

	$
2016	594,113
2017	455,600
2018	433,127
2019	400,224
2020	400,224
2021 and thereafter	1,102,707
Total minimum lease payments	3,385,995
Less: Amount representing interest at rate 1.51% - 6.1%	(311,763)
Balance of obligation	3,074,232
Less: Current portion of obligations under capital lease	515,604
	2,558,628

The debt obligation is secured by the specific equipment under capital lease.

10. Derivative liability

The hospital has a credit facility for the financing of construction costs related to an energy retrofit project in the amount of $11.9 million. The hospital entered into an interest rate swap agreement to modify the floating rate of interest on the loan from Bankers Acceptance rates ranging from 1.476% to 1.8% (2014 - 1.72%) during the year, to a fixed rate of 4.35%. The start date of this interest rate swap was September 3, 2013 with a maturity date of September 3, 2023. The notional value of the derivative financial instruments is $11,000,000 and amortized monthly during the term of the interest rate swap. The fair value of the interest rate swap at March 31, 2015 is $1,020,857 (2014 - $804,501). The change in fair value during the year of $216,356 is recorded in the Statement of remeasurement gains and losses.

11. Long-term debt

	2015	2014
	$	$
Energy Retro-fit Construction facility - borrowings at an interest rate of prime plus 0.5%, payable over the next 8 years	**521,050**	582,957
Energy Retro-fit Swap facility - borrowings at an interest rate of prime plus 4.35%, payable over the next 8 years	**9,350,000**	10,450,000
St. Catharines Site mortgage - borrowings at an interest rate of 9.1%, payable over the next 28 years in monthly payments, which escalate based on consumer price index	**208,500,227**	210,090,702
	218,371,277	221,123,659
Less: current portion	**2,941,292**	3,106,564
	215,429,985	218,017,095

Energy Retro-fit

The Hospital has a revolving credit facility for major expenditures for equipment and construction related to Hospital redevelopment projects, subject to specified conditions, of $15,000,000 bearing interest at prime plus .5%. Funds advanced on the credit facility are payable in monthly or quarterly payments with a maximum term of 10 years at the borrowers option.

On July 20, 2011 the Hospital entered into a financing agreement for the purposes of financing construction costs related to an energy retrofit project at 6 sites of the Hospital.

At March 31, 2013 funds were advanced on the revolving credit facility against the Energy Retro-fit project with interest to be capitalized during the construction drawdown period and has since been converted to a swap loan. As at March 31, 2015, an amount of $9,871,050 (2014 - $11,032,957) was drawn against this facility.

There are two components to this credit arrangement. The first is an unsecured interim construction loan maturing September 2, 2013, where interest at prime plus .5% is capitalized against the loan during this period.

For the second component the hospital has in place a swap facility effective September 3, 2013 for $11,000,000 the revised expected project cost, repaid over a 10 year period utilizing operating savings achieved under a performance contract. Funds advanced on the credit facility are payable in monthly payments. Under the terms of the swap agreement, the Hospital agrees with the counterparty to exchange its floating interest rate for a fixed interest rate and credit spread of 4.35%. The use of the swap effectively enables the Hospital to convert floating rate interest obligations into fixed rate obligations and thus manage its exposure to interest rate risk. This swap agreement will be designated as a hedge when executed.

New St. Catharines site

The Hospital entered into an alternate financing and procurement project under PIR's ReNew Ontario Infrastructure investment plan with Plenary Health Niagara LP to Design, Build, Finance and Maintain (DBFM) the new health care complex in St. Catharines. The facility was substantially completed on November 26, 2013. Under the terms of the Project Agreement, payments will be made by the Hospital for principal and interest costs. Payments have comprised construction progress payments, payment at substantial completion and mortgage payments. As at March 31, 2015 $208.5 million (2014 - $210.1 million) of principal has been recorded as a long-term obligation for these mortgage payment and will be paid over a 30-year period with payments having commenced after the substantial completion date.

11. Long-term debt (continued)

Total long-term debt repayments

Principal repayments required over the next five years and thereafter are as follows:

	$
2016	2,941,292
2017	3,124,322
2018	3,298,737
2019	3,499,757
2020	3,718,942
2021 and thereafter	201,788,227
	218,371,277

12. Employee future benefits

The Hospital pays certain benefits of its retired employees including life insurance, health benefits, dental benefits and deluxe travel benefits. These post-retirement benefits are recognized in the period in which the employees rendered their services to the Hospital.

The Hospital measures its accrued benefits obligations for accounting purposes at December 31st each year. The most recent actuarial valuation of the benefit plans was April 1, 2015. Information about the defined benefit plan is as follows:

	2015	2014
	$	$
Accrued benefit obligation, end of the year	**32,198,238**	31,353,300
Less: experience loss	**1,779,600**	4,395,900
Accrued benefit liability, end of the year	**30,418,638**	26,957,400
Current portion	**2,073,700**	1,929,700
Long-term portion	**28,344,938**	25,027,700
	30,418,638	26,957,400

Movement in the accrued benefit obligation is as follows:

	2015	2014
	$	$
Accrued benefit obligation, beginning of the year	**31,353,300**	30,188,800
Accrual for service	**1,675,300**	1,605,500
Interest on accrued benefits	**1,394,800**	1,344,200
Benefits paid for the year	**(1,929,700)**	(1,785,200)
Experience loss	**(2,157,300)**	-
Hospital of Ontario Disability Income Program	**1,861,838**	-
Accrued benefit obligation, end of the year	**32,198,238**	31,353,300

12. Employee future benefits (continued)

Included in the statement of operations is an amount of $4,680,697 (2014 - $2,602,123) regarding employee future benefits. This amount is comprised of:

	2015	2014
	$	$
Plan expense		
Current service cost	**965,059**	798,923
Interest cost	**1,394,800**	1,344,200
Acturial loss	**459,000**	459,000
Hospital Of Ontario Disability Income Program	**1,861,838**	-
Net benefit expense	**4,680,697**	2,602,123

The average remaining service period to full eligibility is 11 years (2014 - 11 years).

The main actuarial assumptions employed for the valuation are as follows:

Interest (discount rate)

The obligations as at March 31, 2015 of the present value of future liabilities was determined using 4.35% (2014 - 4.35%). The expense for the year then ended were determined using a discount rate of 4.35% (2014 - 4.35%).

Medical costs

Medical costs were assumed to increase to a rate of 7% (2014 - 8%) in 2015 decreasing by .25% (2014 - .25%) increments per annum to an ultimate rate of 4.75% (2014 - 5%) in 2026 and thereafter.

Dental costs

Dental costs were assumed to increase at 3.75% (2014 - 4%)per annum.

13. Deferred capital contributions

Deferred capital contributions related to capital assets represent the unamortized amount and unspent amount of donations and grants received for the purchase of capital assets. The amortization of capital contributions is recorded as revenue in the statement of operations.

	2015	2014
	$	$
Balance, beginning of year	**870,951,919**	880,047,717
Contributions received and interest earned during the year	**29,018,263**	26,364,684
Amortization	**(35,802,564)**	(35,460,482)
	864,167,618	870,951,919
Less: Current portion of deferred contributions	**(35,027,785)**	(32,640,524)
Balance, end of year	**829,139,833**	838,311,395

14. Investment in land, buildings, equipment

Investment in land, buildings and equipment

	2015	2014
	$	$
Investments	**43,267,497**	23,223,257
Land, buildings and equipment	**881,307,893**	900,613,070
Contributions receivable	**188,936,370**	193,907,021
Deferred capital contributions	**(864,167,618)**	(870,951,920)
Long-term debt	**(218,371,277)**	(221,123,661)
Obligations under capital leases	**(3,074,232)**	(4,434,525)
	27,898,633	21,233,242

Changes in net assets invested in land, buildings and equipment is calculated as follows:

	2015	2014
	$	$
Amortization of land improvements, buildings and equipments	**(41,281,138)**	(39,160,506)
Amortization of deferred contributions	**35,802,565**	35,460,482
Loss on disposal of land, buildings and equipment	**(107,968)**	(845,550)
	(5,586,541)	(4,545,574)
New land, buildings and equipment additions	**22,095,595**	16,386,682
Proceeds on sale on assets	**(11,666)**	(3,148,916)
Contributions receivable	**(4,970,651)**	5,846,909
Net increase in deferred contributions	**(29,018,263)**	(26,364,685)
Obligations under capital leases	**1,360,293**	(1,931,732)
Increase of long-term debt	**2,752,382**	(1,928,626)
Increase (decrease) in restricted cash and investments	**20,044,242**	1,721,951
	12,251,932	(9,418,417)

15. Endowments and trust funds

	2015	2014
	$	$
Summary of endowments		
Niagara Health System	**3,627,199**	3,728,577

All of the assets restricted for endowment or trusts purposes are subject to externally imposed restrictions that the principal be maintained intact. The interest earned on the funds is restricted for expenditures that meet the stipulations of the donation.

16. Externally restricted funds

	2015	2014
	$	$
Opening balance	**72,136**	71,879
Reallocation of interest earned on restricted funds	**165**	257
	72,301	72,136

The Hospital has $72,301 (2014 - $72,136) in externally restricted funds. Externally restricted funds represent donations which have been restricted by the donor for a specific expenditure or type of expenditure. The Board have the discretion to spend the funds in accordance with the stipulations of the donations.

17. Internally restricted funds

	2015	2014
	$	$
Opening balance	**81,808**	78,476
Reallocation of interest earned on restricted funds	**3,748**	3,332
	85,556	81,808

The internally restricted net assets represent contributions received for capital projects and funds internally restricted by the previous Board of Directors of the founding hospitals for capital projects and equipment specific to the site.

18. Other votes and other funds

Other votes represent funding received for specific programs/services from the Ministry of Health and Long Term Care, approved by a separate vote of the provincial legislature. Other fund types are funding received from other sources than the Ministry of Health and Long-Term Care. Funding for other votes and other fund types are not included in the Hospital's global funding.

	2015	2014
	$	$
Other votes		
Revenue	**7,904,906**	8,609,373
Expense	**8,016,836**	8,716,309
	(111,930)	(106,936)
Other fund types		
Endowment and trust interest income - net	**(44,189)**	(58,564)
Extended Care Unit and Interim Long Term Care loss	**(995,421)**	(818,989)
	(1,039,610)	(877,553)
	(1,151,540)	(984,489)

19. Net capital expenditures – building and land improvements

	2015	2014
	$	$
Amortization of building and land improvements	**(24,267,642)**	(24,028,272)
Amortization of deferred grants	**22,219,835**	21,971,706
Gain on disposal of land and buildings	**-**	122,233
Donation and grant revenue	**13,714**	-
Donation and grant revenue - Capital Mortgage interest for St. Catharines Health Complex	**17,754,200**	19,801,599
Capital Mortgage interest for New St. Catharines Health Complex	**(17,754,200)**	(19,801,599)
Capital interest expense	**(447,986)**	(282,818)
	(2,482,079)	(2,217,151)

20. Commitments

Operating leases

The Hospital is committed to payments under operating leases for certain equipment and facilities in the total amount of $3,454,690. Annual payments are as follows:

	$
2016	1,588,508
2017	1,137,340
2018	670,999
2019	56,420
2020	1,423
	3,454,690

New health-care complex

The Hospital entered into financial arrangements with Plenary Health Niagara to design, build, finance and maintain the new health-care complex in St. Catharines on March 27, 2009. Over the 30-year period, payment commitments related to facilities and lifecycle maintenance are expected to be as follows:

	$
2016	6,476,153
2017	7,675,724
2018	7,150,877
2019	7,513,321
2020	8,999,586
2021 and thereafter	361,775,992
	399,591,653

These payments related to facilities maintenance and lifecycle costs will be indexed over the term of the agreement to provide for changes in certain operating costs. The Hospital has entered into an agreement with the MOHLTC to share in these costs based on MOHLTC funding policy.

See Note 4 for further details regarding the new hospital complex.

21. Contingent liabilities

As at March 31, 2015, there were a number of claims outstanding, none of which exceeded the insurance coverage of the Hospital. The nature of Hospital activities is such that there is usually litigation pending or in prospect at any time. With respect to claims and possible claims, management believes the Hospital has valid defences and/or appropriate insurance coverage in place. In the event any claims are successful, management believes such claims are not expected to have material adverse effect on Hospital's financial position and results of operations.

The Hospital participates in the Healthcare Insurance Reciprocal of Canada ("HIROC"), a registered Reciprocal pursuant to provincial Insurance Acts which permit persons to exchange with other persons reciprocal contracts of indemnity insurance. HIROC facilitates the provision of liability insurance coverage to health care organizations in the provinces of Ontario, Manitoba, Saskatchewan and Newfoundland. Subscribers pay annual premiums, which are actuarially determined, and are subject to assessment for losses in excess of such premiums, if any, experienced by the group of subscribers for the years in which they were a subscriber. No such assessments have been made to March 31, 2015.

In the normal course of business, the Hospital has entered into agreements that meet the definition of a guarantee. The Hospital's primary guarantees are as follows:

a) Indemnity has been provided to all directors and officers of the Hospital for various items including, but not limited to, all costs to settle suits or actions due to association with the Hospital, subject to certain restrictions. The Hospital has purchased director's and officers' liability insurance to mitigate the costs of any potential future suits or actions. The term of the indemnification is not explicitly defined, but is limited to the period over which the indemnified party served as a director or officer of the Hospital. The maximum amount of any potential future payment cannot be reasonably estimated.

b) In the normal course of business, the Hospital has entered into agreements that include indemnities in favour of third parties. These indemnification agreements may require the Hospital to compensate counterparties for losses incurred by the counterparties as results of breaches in representation and regulations or as a result of litigation claims or statutory sanctions that may be suffered by the counterparty as a consequence of the transaction. The terms of these indemnities are not explicitly defined and the maximum amount of any potential reimbursement cannot be reasonably estimated.

The nature of these indemnification agreements prevents the Hospital from making a reasonable estimate of the maximum exposure due to the difficulties in assessing the amount of liability, if any, which stems from the unpredictability of future events and the unlimited coverage offered to the counterparties. Accruals recorded are based on management's best estimate given the most current information available.

22. Pension plan

Substantially all of the employees of the Hospital are members of the Hospitals of Ontario Pension Plan (the "Plan"), which is a multi-employer defined benefit pension plan available to all eligible employees of the participating members of the Ontario Hospital Association. Plan members will receive benefits, terminating on death, based on the length of service and on the average of annualized earnings during the five consecutive years prior to retirement.

Pension assets consist of investment grade securities. Market and credit risk on these securities are managed by the Plan by placing plan assets in trust and through the Plan investments policy. The plan is currently funded at 115%.

Pension expense is based on Plan management's best estimates, in consultation with its actuaries, of the amount, together with contributions by employees of 6.9% of the first $52,500 of salary and 9.2% thereafter, required to provide a high level of assurance that benefits will be fully represented by fund assets at retirement, as provided by the Plan. The funding objective is for the employer contributions to the Plan to remain a constant percentage of employee's contributions.

22. Pension plan (continued)

Variances between actuarial funding estimates and actual experience may be material and any differences are generally to be funded by the participating members. Contributions to the Plan made during the year by the Hospital on behalf of its employees amounted to $18,704,622 (2014 - $18,486,835) and are included in the statement of operations.

23. Financial instruments and risk management

Establishing fair value

The carrying value of cash, receivables, long-term receivable, cash and investments restricted for capital, payables and accruals, obligations under capital leases and bank borrowings approximates their fair value because of the relatively short period to maturity of the instruments. The fair value of long-term debt is not materially different from their carrying values as it bears interest at variable rates and has financing conditions similar to those currently available to the Hospital.

Fair value hierarchy

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The table below analyzes financial instruments carried at fair value, by valuation method, for financial instruments where fair value is disclosed in the financial statements.

				March 31, 2015
	Fair value measurement using			
	Level 1	Level 2	Level 3	Total
	$	$	$	$
Derivative liability	-	1,020,857	-	1,020,857

The Hospital manages its exposure to the risks associated with financial instruments that have the potential to affect its operating and financial performance in accordance with its Risk Management Policy. The objective of the policy is to reduce the volatility in cash flow and earnings. The Board monitors compliance with the risk management policies and reviews risk management policies and procedures on an annual basis.

The Hospital has exposure to the following risks associated with its financial instruments.

23. Financial instruments and risk management (continued)

Credit risk

Cash and investments restricted for capital

Credit risk associated with cash and investments restricted for capital is minimized substantially by ensuring these assets are invested in financial obligations of: governments; major financial institutions that have been accorded investment grade ratings by a primary rating agency; and/or other creditworthy parties. An ongoing review is performed to evaluate changes in the status of the issuers authorized for investment under the Hospital's investment policy.

Accounts receivable

Credit risk associated with accounts receivable is minimized due to the nature of the Hospital's funding from the Province of Ontario. For other accounts receivable, the Hospital maintains allowances for potential credit losses, and any such losses to date have been within management's expectations.

Management believes concentrations of credit risk with respect to accounts receivable is limited due to the credit quality of the parties extended credit, as well as the large number of smaller customers.

The Hospital must make estimates in respect of the allowance for doubtful accounts. Current economic conditions, historical information and reasons for the accounts being past due are all considered in the determination of when to allow for past due accounts; the same factors are considered when determining whether to write off amounts charged to the allowance account against the amounts receivable.

Liquidity risk

Liquidity risk is the risk that the Hospital will not be able to meet a demand for cash or fund its obligations as they come due.

Liquidity risk also includes the risk of the Hospital not being able to liquidate assets in a timely manner at a reasonable price.

The Hospital meets its liquidity requirements by preparing and monitoring detailed forecasts of cash flows from operations and anticipated investing and financing activities and holding assets that can be readily converted into cash. The Hospital has a short term unsecured bank financing facility in place should it be required to meet temporary fluctuations in cash requirements as well as funding arrangements in place with the MOHLTC and HNHBLHIN as described in Note 4.

Interest rate risk

Interest rate risk refers to the risk that the fair value of financial instruments or future cash flows associated with the instruments will fluctuate due to changes in the market interest rates. The interest rate exposure of the Hospital arises from its interest bearing assets and its pension and other post-retirement benefit obligations. The Hospital also has short term and long term borrowings subject to interest rate risk. The primary objective of the Hospital with respect to its investments in fixed income investments is to ensure the security of principal amounts invested and provide for a high degree of liquidity, while achieving a satisfactory investment return.

The Hospital manages the interest rate risk exposure of its fixed income investments by using a laddered portfolio with varying terms to maturity. The laddered structure of maturities helps to enhance the average portfolio yield while reducing the sensitivity of the portfolio to the impact of interest rate fluctuations. At March 31, 2015, the Hospital had $7,487,262 (2014 - $7,450,027) of investments exposed to interest rate risk.

The Hospital is exposed to interest rate risk since changes in interest rates may impact the Hospital’s borrowing costs. Floating rate debt exposes the Hospital to fluctuations in short-term interest rates. At March 31, 2015, the Hospital had $25,619,108 (2014 - $19,385,762) of short-term borrowings subject to variable interest rate. The risk is mitigated for part of the year as provincial funding is advanced.

24. Related parties and shared services

Related parties

In 2015 the Hospital was associated with the following Foundations and Auxiliaries: One Foundation for Niagara Health System, Niagara-on-the-Lake Hospital Foundation, St. Catharines General Hospital Auxiliary, Greater Niagara General Hospital Auxiliary, Douglas Memorial Hospital Auxiliary, Port Colborne General Hospital Auxiliary, Niagara-on-the-Lake Hospital Auxiliary and Welland Hospital Auxiliary.

The Foundation and Auxiliaries are independent organizations that raise funds and holds resources for the benefit of the Hospital and its sites. All amounts received from the Foundation and Auxiliaries are restricted in use by the organizations and, accordingly, are accounted for by the Hospital as externally restricted contributions. The Foundations and Auxiliaries contributed $5,963,442 during fiscal 2014-15 (2013 -14 - $7,424,838). Included in the Hospital's assets as at March 31, 2015 is $8,495,078 (2014 - $10,393,691) in accounts receivable from the Foundations and Auxiliaries.

Shared services

The Hospital is a member of Mohawk Shared Services Inc. (“Mohawk”). Mohawk is a not-for-profit organization which provides centralized Laundry Services, Diagnostic Imaging Repository Services, Employee Assistance Program Services and Mohawk Supply Chain Services to its members and participants in the Hamilton-Niagara and surrounding areas. Mohawk is in the introductory phase of adding centralized Accounts Payable Services to its portfolio. Mohawk is incorporated without share capital under the laws of the Province of Ontario and is exempt from income taxes under the Income Tax Act. Member hospitals share in paying the operating costs for the corporation. The Hospital’s share of operating costs in 2015 was $ 950,727 (2014 - $1,397,923) reflected in expenses on the Statement of Operations. There were no accounts payable to Mohawk for operating costs included in the Hospital’s liabilities at March 31, 2015 (2014 - $Nil).

25. Ministry of Health and Long Term Care (MOHLTC) and Local Health Integration Network (LHIN) Revenue

Included in the MOHLTC and LHIN revenue is $10,531,741 (2014 - $Nil) of Post Construction Operating Plan (“PCOP”) Prior Year Settlement funding which has been recognized into income as a results of the annual reconciliation process with the MOHLTC. PCOP incremental funding is provided for expected additional patient volumes made available as a result of the new St. Catharines hospital build. The Ministry advances funding for the operating costs related to the anticipated expansion of patient volumes and subsequently settles with the Hospital based on actual volumes achieved. This funding settlement covers the additional patient volumes delivered up to March 31, 2014.

26. Comparative figures

Certain of the comparative figures have been reclassified to conform with the financial statement presentation adopted for the current year.